

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY LONDON

C O N F I D E N T I A L STATE 265053

FOR DEPUTY ASSISTANT SECRETARY JULIUS L. KATZ

FOLLOWING REPEAT KUWAIT 4596 ACTION SECSTATE INFO ABU DHABI
BEIRUT DHAHRAN DOHA JIDDA MANAMA MUSCAT TEHRAN TOKYO BAGHDAD
DATED 6 NOV 75

QUOTE

C O N F I D E N T I A L KUWAIT 4596

E.O. 11652: GDS

TAGS: ENRG KU, US

F

SUBJECT: POSSIBLE CONOCO-KUWAIT LPG JOINT VENTURE

1. ARCHIE DUNHAM AND T.E. DAVIS OF CONTINTENAL OIL COMPANY
GAS PRODUCTS DIVISION CALLED ON DCM AND ECON SECTION CHIEF
NOVEMBER 5 TO BRIEF EMBASSY ON POSSIBLE MAJOR DEAL BETWEEN
COMPANY AND GOK. CONOCO HAS BEEN LAYING GROUNDWORK FOR DEAL
FOR TWO YEARS. DUNHAM AND DAVIS SAID PROPOSALS SUBMITTED TO
MINISTER OF OIL EARLIER THIS WEEK AND GOK HAS ASKED FOR
DETAILED DISCUSSIONS IN JANUARY.

2. UNDER PROPOSAL, GOK AND CONOCO WOULD EACH OWN ONE-THIRD
OF NEW COMPANY WITH AN AS YET UNDETERMINED THIRD PARTNER.
CONTINENTAL WOULD PURCHASE SOME 1 MILLION TONS LPG PER YEAR,
STARTING IN 1978 WHEN NEW KUWAIT LPG FACILITY IS ON STREAM.
LPG WOULD BE STORED AT NEW LPG TERMINAL, TO BZ CONSTRUCTED
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AT ESTIMATED COST OF \$90 MILLION, AT MONT BELVIEU, TEXAS AND

DISTRIBUTED THROUGHOUT US EAST OF ROCKIES. NEW
TERMINAL WOULD HAVE CAPACITY TO HANDLE UP TO 10,000 BARRELS
PER HOUR. INITIAL SALT DOME STORAGE COULD ACCOMMODATE
6 MILLION BARRELS. POSSIBILITY ALSO EXISTS THAT SYNTHETIC
GAS PLANTS, USING LPG AS FEEDSTOCK, COULD DEVELOPE FROM PROJECT.
VALUE ANNUAL KUWAITI LPG EXPORTS TO US BY CONTINENTAL ALONE
WOULD TOTAL OVER \$100 MILLION.

3. CONOCO SUBMITTED OUTLINE OF PROJECT TO GOK THIS WEEK.
OFFERED TO EITHER SIMPLY BUY KUWAIT LPG OR TO BUY AND
MARKET IT. GOK REPLIED THAT IT MORE INTERESTED IN THIRD
ALTERNATIVE, VIZ., JOINT VENTURE, WHICH IN FACT WAS
ALTERNATIVE CONOCO ITSELF PREFERRED. THEREFORE, CONOCO AND
GOK AS OF NOW EACH HAVE INFORMALLY EXPRESSED POSITIVE INTEREST
IN PURSUING JOINT VENTURE.

4. FROM CONOCO POINT OF VIEW, KUWAIT OFFERS POSSIBILITY OF
ASSURED SUPPLY OF LPG (PROPANE, BUTANE AND AT GOK REQUEST
NATURAL GASOLINE) AT TIME (I.E. AFTER 1980) WHEN US SUPPLY
WILL BE INSUFFICIENT TO MEET DOMESTIC REQUIRE-
MENTS. GOK INVESTMENT ALSO WELCOMED. HOWEVER, DUNHAM AND
DAVIS ALSO LOOKING INTO POSSIBILITIES ELSEWHERE, INCLUDING
SAUDI ARABIA. FYI DCM RECOMMENDED THEY DISCUSS POSSIBLE
ACTIVITIES IN SAUDI ARABIA WITH AMBASSADOR AKINS. END FYI.
GOK, FOR ITS PART, INTERESTED IN ESTABLISHING MARKET FOR ITS
LPG IN US AT TIME WHEN TOTAL PERSIAN GULF SUPPLY MAY EXCEED
DEMAND. MOREOVER, US SALES WILL REDUCE TOTAL DEPENDENCE ON
JAPANESE MARKET. CONOCO OFFICIALS DOUBT ENVIRONMENTAL OR
SIMILAR CONCERNS WILL BE PROBLEM IN TEXAS. COMPANY ALREADY
OWNS SALT DOMES WHERE LPG CAN BE STORED. THEY THINK US
LPG REQUIREMENTS WILL BLUNT ANY POSSIBLE POLITICAL CHALLENGE
TO KUWAITI INVESTMENT. PRICE NOT YET DECIDED; PRESUMABLY IT
WILL BE BASED ON HOUSTON MARKET PRICE, BUT ALSO BE AFFECTED
BY ANY DECONTROL OF PRICES BY USG. MATTER PROBABLY WILL BE
LEFT TO BE NEGOTIATED LATER. FYI CURRENTLY KUWAIT LPG
BEING SOLD TO JAPAN FOR \$120-125 PER TON COMPARED TO US PRICE
OF ABOUT \$70 TON. END FYI.

5. COMMENT: DUNHAM AND DAVIS PROMISED KEEP EMBASSY INFORMED
OF DEVELOPMENTS, AND WE ANTICIPATE SEEING THEM AGAIN IN
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JANUARY. FROM OUR VANTAGE POINT WE BELIEVE DEAL LIKELY TO
BE ATTRACTIVE BOTH TO GOK AND CONOCO FOR REASONS NOTED IN
PRECEEDING PARAGRAPH. KEY, HOWEVER, WILL BE PRICE, AND IT
IMPOSSIBLE TO KNOW WHAT SITUATION WILL BE THREE YEARS FROM
NOW. CONOCO WILL GO FORWARD WITH TERMINAL FACILITY IN
TEXAS--WITH OR WITHOUT KUWAITIS-- AND, AS NOTED ABOVE, THEY
WILL EXPLORE POSSIBILITY WORKING WITH OTHERS. HOWEVER,
COMPANY OFFICIALS MADE CLEAR IT PREFERS TO WORK WITH KUWAITIS.

BASED ON WHAT CONOCO OFFICIALS TOLD US AND OUR OWN KNOWLEDGE
OF GOK INTEREST IN MARKETING LPG, WE THINK GOK SERIOUS AND
WILL WANT TO NAIL DOWN MARKET IN US.

6. ACTION REQUESTED: CAN DEPARTMENT ADVISE EMBASSY WHETHER
IT FORESEES ANY INHERENT PROBLEM--AS FAR AS USG CONCERNED--
IF GOK, TOGETHER WITH CONOCO AND ANOTHER PARTNER, GO FORWARD
WITH JOINT VENTURE INVOLVING SUBSTANTIAL KUWAITI INVEST-
MENT IN TERMINAL FACILITY IN US?

STOLTZFUS

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